

IRS Notice 2020-32: Payment of Expenses That Result In PPP Loan Forgiveness Are Not Deductible

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As we have [previously discussed](#), the CARES Act created the Paycheck Protection Program, pursuant to which employers may be able to obtain loans (“PPP loans”) to help cover business expenses during the COVID-19 pandemic. Under the CARES Act, PPP loans may be partially or wholly forgiven if the proceeds are used to cover certain expenses, and the employer is not subject to tax on such loan forgiveness.

The CARES Act, however, did not address whether the business expenses that result in PPP loan forgiveness will be deductible for tax purposes. The IRS answered this question in [Notice 2020-32](#), which was released on April 30th. In the Notice, the IRS concludes that when the payment of business expenses results in the forgiveness of a PPP loan, such as payroll costs or rent, those business expenses will not be deductible for tax purposes. According to the IRS, this treatment prevents a “double tax benefit” and is consistent with Section 265(a) (1) of the Internal Revenue Code, which generally provides that no tax deduction is available for expenses that are paid with tax-exempt dollars.

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